

# Morning Report

Friday, 10 March 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,311	0.0%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	32,246	-1.7%	10 yr bond	3.68				90 day BBSW	3.64	0.00
Japan Nikkei	28,623	0.6%	3 yr bond	3.40				2 year bond	3.45	-0.02
China Shanghai	3,434	-0.2%	3 mth bill rate	3.99				3 year bond	3.44	-0.03
German DAX	15,633	0.0%	SPI 200	7,241.0				3 year swap	3.83	-0.03
UK FTSE100	7,880	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.71	-0.04
Commodities (close & change)*			TWI	60.5	-	-	60.5	<b>United States</b>		
CRB Index	264.7	-2.4	AUD/USD	0.6594	0.6636	0.6576	0.6584	3-month T Bill	4.83	-0.05
Gold	1,830.74	16.9	AUD/JPY	90.50	90.57	89.55	89.63	2 year bond	4.89	-0.18
Copper	8,834.05	-58.0	AUD/GBP	0.5565	0.5583	0.5523	0.5524	10 year bond	3.92	-0.07
Oil (WTI futures)	75.47	-1.2	AUD/NZD	1.0787	1.0809	1.0767	1.0791	<b>Other (10 year yields)</b>		
Coal (thermal)	184.00	1.8	AUD/EUR	0.6251	0.6272	0.6220	0.6224	Germany	2.64	0.00
Coal (coking)	365.33	-1.7	AUD/CNH	4.5945	4.6212	4.5874	4.5963	Japan	0.51	0.00
Iron Ore	129.60	2.0	USD Index	105.64	105.73	105.15	105.31	UK	3.80	0.03

Data as at 8:00 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Markets were on edge ahead of the US non-farm payrolls release tonight. This will be a key input into the Fed's March rate decision. A tick up in the number of new jobless claims sparked some nerves that the market was too quick to price in the risk of a re-acceleration in Fed rate hikes. This saw bond yields fall sharply at the front end of the curve. US stocks sank, led by financials as concerns about rising arrears and defaults escalated.

**Share Markets:** US equities were sharply lower overnight, underpinned by a slump in financials. Consensus that higher interest rates are likely needed to rein in inflation ignited concerns of higher defaults at some point in 2023. The S&P 500 slid 1.8%, the largest one-day fall of 2023 so far. The NASDAQ and the Dow Jones were down 2.1% and 1.7%, respectively.

The ASX 200 was flat yesterday, after gyrating through gains and losses. Futures are pointing to a soft open this morning.

**Interest Rates:** The 2-year treasury yield tumbled 18 basis points to 4.89% as investors discounted the risk of a larger 50-basis point hike from the Fed this month. This was the biggest one-day slump in the 2-year yield since early January. The 10-year yield pulled back 7 basis point to 3.92%.

Interest rate markets are attaching a 76.8% probability to a 50-basis point hike from the Fed this month, down sharply from 85.5% yesterday.

Aussie futures followed the lead from US markets.

The 3-year government bond (futures) yield fell 4 basis points to 3.40%, while the 10-year yield fell 3 basis points to 3.68%.

Market pricing implies a 41.5% probability of a 25-basis point rate hike from the Reserve Bank (RBA) in April. The market sees the peak in the cash rate around 4.0% in the second half of this year.

**Foreign Exchange:** The Aussie dollar is consolidating its recent plunge, holding a tight range between 0.6550 and 0.6650. The AUD/USD pair is currently sitting around 0.6584, marginally below where it opened. The pair remains vulnerable to movements in the US dollar ahead of the Fed's March policy meeting, including any moves sparked by tonight's payrolls data.

The US dollar finished slightly lower against a basket of major currencies. The DXY index traded a narrow range between 105.73 and 105.15 and is currently trading around 105.31.

**Commodities:** Iron ore, gold and thermal coal firmed, while copper and oil softened. Commodity markets continue to contend with the net impact from the reopening of China and an anticipated slowdown in global growth.

**Australia:** There were no major economic data releases yesterday.

**China:** Inflationary pressures in China were softer than expected in February, suggesting that the rapid reopening of the country won't add to global

inflation.

The consumer price index (CPI) rose 1.0% over the year to February, slowing from a 2.1% annual gain in January and falling short of expectations for a 1.9% rise. This was the softest annual increase in the CPI in 12 months.

The producer price index (PPI), which measures input prices faced by firms, fell 1.4% over the year, the largest fall since November 2020. The PPI has now slowed for five consecutive months in annual terms. The disinflation in producer prices suggests we are unlikely to see a breakout in inflation in China at this stage.

**Japan:** December quarter GDP growth was finalised at just 0.1%, down from a preliminary reading of 0.6%. The stagnation in economic activity in the December quarter was underpinned by weak business spending and a run-down in inventories, while household spending and net exports made positive contributions to growth.

**United States:** Initial jobless claims rose 211k during the week ending 4 March, beating expectations for a 195k increase. This marked the first time since early January first time jobless claims surpassed 200k. The release contradicted strong employment data yesterday, amplifying the focus on the key non-farm payrolls release due out tonight.

**Today's key data and events:**

NZ BusinessNZ Mfg PMI Feb prev 50.8 (8:30am)  
EZ Ger. CPI Feb Final exp 0.8% prev 0.8% (6pm)  
US Non-farm Payrolls Chg. Feb exp 225k prev 517k  
(12:30am)  
US Unemployment Rate Feb exp 3.4% prev 3.4%  
(12:30am)  
US Avg. Hourly Earnings Feb exp 0.3% prev 0.3%  
(12:30am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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